

# RatingsDirect®

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## Summary:

# Kansas City, Missouri; Appropriations; General Obligation

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Summary:

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Credit Profile		
US\$51.735 mil spl oblig rfdg & imp bnds (Kansas City, Missouri Projs) ser 2013B due 08/01/2033		
Long Term Rating	AA-/Stable	New
US\$19.56 mil taxable spl oblig imp bnds (Kansas City, Missouri Projs) ser 2013C due 08/01/2033		
Long Term Rating	AA-/Stable	New

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Kansas City, Mo.'s series 2013B special obligation refunding and improvements bonds and series 2013C taxable special obligation improvement bonds, reflecting the city's pledge to annually appropriate debt service from any legally available revenues.

At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on the city's existing general obligation (GO) debt and its 'AA-' long-term rating and SPUR on the city's existing appropriation-backed debt. The outlook on all ratings is stable.

The 'AA' rating reflects our view of the city's general creditworthiness, including:

- Position as the regional center of what we consider a strong and diverse economic base that continues to experience consistent population growth;
- Incomes ranging from adequate to good, yet strong wealth as measured by market value per capita; and
- Strong financial management policies and procedures, leading to steady maintenance of reserves in the good-to-strong range.

Limiting credit considerations, in our view, include the city's:

- Moderately high-to-high overall debt levels, paired with elevated debt service carrying charges; and
- Reliance on economically sensitive earnings and profit taxes, subject to electorate renewal every five years, for a large portion of general fund revenues.

The 'AA-' ratings on the series 2013B and 2013C special obligation bonds and on all existing appropriation-backed debt reflects our expectation that Kansas City will use any legally available revenues to meet loan and debt service obligations and is one notch below the 'AA' GO rating due to the annual appropriation risk and lack of a full faith and credit or unlimited ad valorem tax pledge. The city has pledged to annually appropriate monies for debt service payments on these bonds before the conclusion of its fiscal year on April 30. Debt service payments are scheduled to occur more than three months after the fiscal year-end, providing what we consider ample cushion to accommodate a delayed budget passage.

Kansas City is the economic center of a 15-county region in western Missouri and eastern Kansas, with approximately 2.1 million residents. Its population grew by 4.1% during the 2000s to 459,787 in 2010, making it the state's largest city, and is currently estimated at 465,680. While new residential and commercial building activity continues, albeit at a slower pace than during pre-recessionary years, economic weakness has contributed to modest tax base retraction. Assessed value averaged a 1.7% annual decline over the past three years, with preliminary 2013 figures showing another 0.5% drop. Estimated 2012 market value is \$28.84 billion, or a still-strong \$61,931 per capita. The city's tax base includes a substantial amount of undeveloped land north of the Missouri River, and we understand that water and sewer infrastructure improvements are in place to lay the framework for development. We view this open space as a positive credit factor, given the potential for significant expansion of the city's revenue base.

Leading employment sectors for Jackson County include services (43%), government (15%), and trade (13%). City unemployment jumped from 6.4% in 2007 to 10.3% in 2010, but has since declined, falling to 9.1% in 2011 and 7.4% in 2012. Unemployment for the entire metropolitan area remains below average, at 6.6% in 2012, compared with state (7.1%) and national (8.1%) levels. City incomes are slightly below average, with median household effective buying income (EBI) at an adequate 88% of national levels and per-capita EBI at a good 95%.

Kansas City's financial operations are stable. The city adopted a balanced general fund budget for fiscal 2014, and unaudited fiscal 2013 results indicate a small surplus. At the last audit date, April 30, 2012, the general fund available balance totaled \$43.88 million, equal to a strong 10.3% of fund expenditures. Including transfers out of the general fund that redistribute economic activity taxes, cover deficits in other funds, and pay debt service, the available balance still equates to a good 9.1%. Most of the available reserve, \$38.39 million, is designated as committed, representing fulfillment of the city's one-month minimum reserve policy. Liquidity is also strong, with \$78.6 million in general fund cash representing 59 days' cash. The city reported an additional \$140 million in unreserved capital projects funds to close fiscal 2012, which can support cash flow during the year.

Kansas City relies on a diverse revenue profile, yet uncertainty clouds the city's earnings and profit tax, the leading source of general fund revenues, at 39%. Voters approved a renewal of the 1% earnings and profit tax in April 2011, but current law requires the electorate to renew the tax every five years. While the law provides for a tax phase-out over time, a failed renewal would present significant budget challenges, in our opinion. Earnings and profit taxes experienced a 10.6% drop in fiscal 2010, the first drop in five years, and has since seen modest fluctuation. The tax was down 4.5% in 2012, yet unaudited 2013 results show a 6.3% increase, and the 2014 budget estimates a 4.5% increase. Property (11%), local use (5%), and gaming (4%) taxes are the other major general fund taxes, which compliment licenses, permits, and franchises (25%) and charges for services (10%).

Total general fund revenue performance has weakened in recent years, yet management has been able to control expenditures and ultimately increase the fund balance by a total of \$21.8 million over the past three audited years. Unaudited fiscal 2013 results show a \$4.3 million general fund surplus, and the 2014 budget calls for a \$1 million increase in fund balance. The city froze wages for several years, before signing three-year contracts calling for increases in fiscal years 2013 through 2015. At the same time, hundreds of positions have been kept vacant, helping to maintain budget balance. We understand management has enacted several policies and efficiency measures in recent years, to solidify its strong reserve position for the long term.

Kansas City currently contributes to four pension plans, two of which (the employees' retirement and the firefighters' pension systems) the city administers and two of which (the police retirement and the civilian employees' retirement systems) the state administers. City contributions for the four plans ranged from 52% to 75% of annual required contributions (ARCs) in fiscal 2012, yet overall plan funded ratios remained relatively unchanged. The total unfunded actuarial accrued liability for all pensions is \$611.2 million, and funded ratios range from 76% to 79%. Total fiscal 2012 contributions were \$48.5 million (4.3% of total governmental funds expenditures), and the unpaid \$28.5 million in ARC payments would represent another 2.5% of expenditures. The city recently passed reform measures for three of the plans with discussions ongoing for the fourth. Reform requires 100% ARC funding, and including increased employee contributions, the city expects to have to make up about 50% of the annual amount it had been underfunding.

The city allows nonpolice retirees to buy into its defined-benefit health care plan, and the Kansas City Missouri Board of Police Commissioners does the same for police and civilian retirees of the police department. Given retiree benefits are offered at active employee premium rates, the city recognizes an implicit unfunded liability of \$130.8 million and annual retiree costs are paid on a pay-as-you-go basis.

Including the proposed special obligation bonds, the city's overall debt burden is moderately high, in our view, at 8.2% of market value, yet high on a per-capita basis at \$5,071. Debt service carrying charges are elevated at 16.2% of total governmental funds expenditures, less capital outlay, and including annual pension contributions, total fixed costs amount to more than 17% of total governmental fund expenditures. Amortization is slower, with 60% principal retirement over 10 years and 94% over 20. Only 28% of the city's net direct debt (excluded enterprise debt) is backed by a GO pledge, leaving 72% subject to appropriation and without an unlimited-tax pledge. A large amount of debt is funded through sales and incremental taxes and other dedicated revenues, mitigating, to an extent, the debt burden on property owners.

The city also currently has \$102.3 million in hedged variable-rate debt, and another \$38.8 million is unhedged, which combined, totals 8.8% of net direct debt. There are two swaps outstanding with Citibank N.A. in connection with outstanding series 2008E and 2008F special obligation refunding bonds. As of July 26, 2013, the swaps had a combined negative market value of \$20.4 million, and termination dates of 2025 and 2034. The city has well-defined swap and debt policies, and no history of failed remarketings in the past three years. There are letters of credit backing all variable-rate debt, with the nearest expiration date April 2014. Tax- and appropriation-backed future debt plans are limited, yet include possible financing for a new street car system. The financing is currently estimated at \$80 million, but the project is currently being held up by lawsuits.

Management intends to use about \$26 million of series 2013B bond proceeds to fund various projects, including completion of a public safety and crime lab project, parks improvements, and major renovations to the city auditorium. The remaining portion is intended to refund existing debt, consisting of series 2003C bonds issued through the Kansas City Municipal Assistance Corp. and series 2004 tax-increment bonds. The series 2013C bonds contain \$13.8 million in financing for a soccer complex and for city market renovations, plus \$5.5 million to refinance a Bank of American loan. The city has identified numerous specific revenue sources to repay the special obligation bonds.

Standard & Poor's considers Kansas City's management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights include

regular reporting on financial and investment performance to the city council, annually updated long-term financial and capital planning documents, and formalized policies for debt and investment management. In addition, the city has a reserve policy requiring the general fund to carry at least one month's expenditures. Reserves are currently just above minimum policy levels.

## Outlook

The stable outlook reflects Standard & Poor's expectation that Kansas City officials will continue to closely monitor financial operations and make ongoing budget adjustments. It is our view that the city has a strong capacity to quickly identify trends or budget pressures and to respond to pressures with appropriate measures in a timely manner. We expect these practices to lead to a continuation of balanced or close-to-balanced operations, as well as maintenance of general fund reserves at or near the one-month policy limit.

Although we do not expect the rating to change over the outlook's two-year horizon, we could lower the rating if the city's operating revenues or financial operations, as a whole, come under added pressure, causing reserves to deteriorate. The size of the city's debt burden, which may grow if long-term additional debt plans outweigh population and tax base growth, combined with the long-term uncertainty regarding earnings and profit taxes, temper the likelihood of a future improvement of the rating. The city's status as a regional economic and employment center that is growing offers long-term stability to the rating.

## Related Criteria And Research

USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of August 2, 2013)		
Kansas City approp		
Long Term Rating	AA-/Stable	Affirmed
Kansas City approp		
Long Term Rating	AA-/Stable	Affirmed
Kansas City spl oblig bnds (Missouri Projects) ser 2012A due 03/01/2032		
Long Term Rating	AA-/Stable	Affirmed
Kansas City GO		
Long Term Rating	AA/Stable	Affirmed
Kansas City GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Kansas City spl oblig</b>		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
<b>Kansas City GO</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
<b>Kansas City (East Vill Proj) spl oblig</b>		

Ratings Detail (As Of August 2, 2013) (cont.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Indl Dev Auth, Missouri</b>		
Kansas City, Missouri		
Kansas City Indl Dev Auth (Kansas City) (Downtown Redev Dist)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<b>Kansas City Indl Dev Auth (Kansas City) infrastructure facs (Uptown Theater &amp; Midtown Redev Projs) ser 2007A</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Indl Dev Auth (Kansas City) var rate dem tax ex rev bnds (Kansas City) ser 2005 A dtd 03/30/2005 due 12/01/2032</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Indl Dev Auth (Kansas City) (Civic Mall Proj) ser 2006C</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Land Clear Redev Auth, Missouri</b>		
Kansas City, Missouri		
<b>Kansas City Land Clear Redev Auth (Kansas City) (XLCA)</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Mun Assist Corp, Missouri</b>		
Kansas City, Missouri		
Kansas City Mun Assist Corp (Kansas City) approp (wrap of insured) (FGIC) (National) (ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Kansas City Mun Assist Corp (Kansas City) (H.Roe Bartle Conv Ctr & Infrastructure Proj) approp (wrap of insured) (AMBAC & ASSURED GTY) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Mun Assist Corp (H.Roe Bartle Conv Ctr &amp; Infrastructure Proj) lsehold</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Mun Assist Corp (Kansas City) lsehold ser 2006A</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Mun Assist Corp (Kansas City) lsehold ser 2006B</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Mun Assist Corp (Kansas City) lsehold (MBIA) (National)</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Kansas City Planned Indl Expansion Auth, Missouri</b>		
Kansas City, Missouri		
<b>Kansas City Planned Indl Expansion Auth (Kansas City) (300 Wyandotte Pkg Garage Proj)</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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